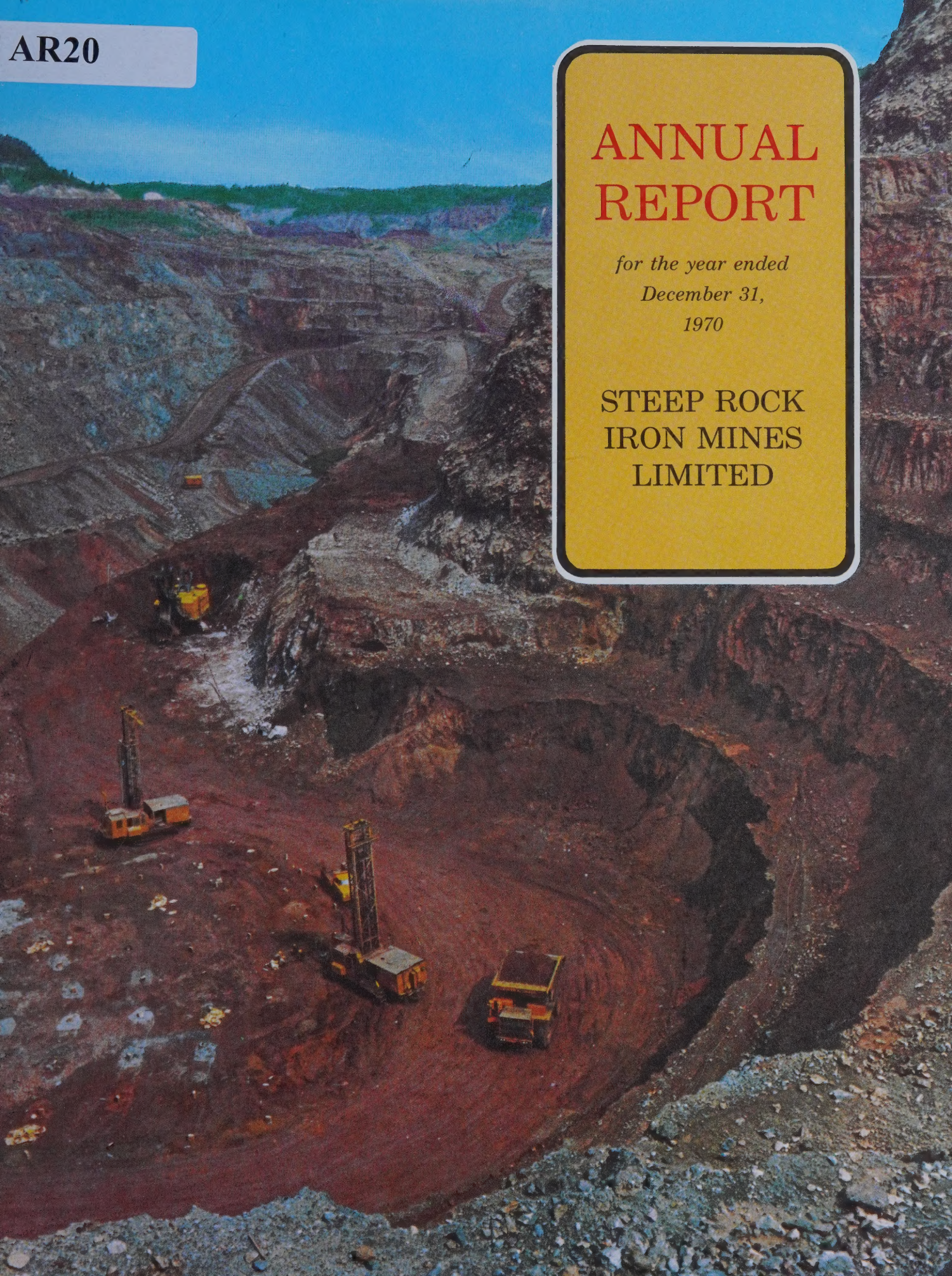
AR20



# ANNUAL REPORT

*for the year ended December 31, 1970*

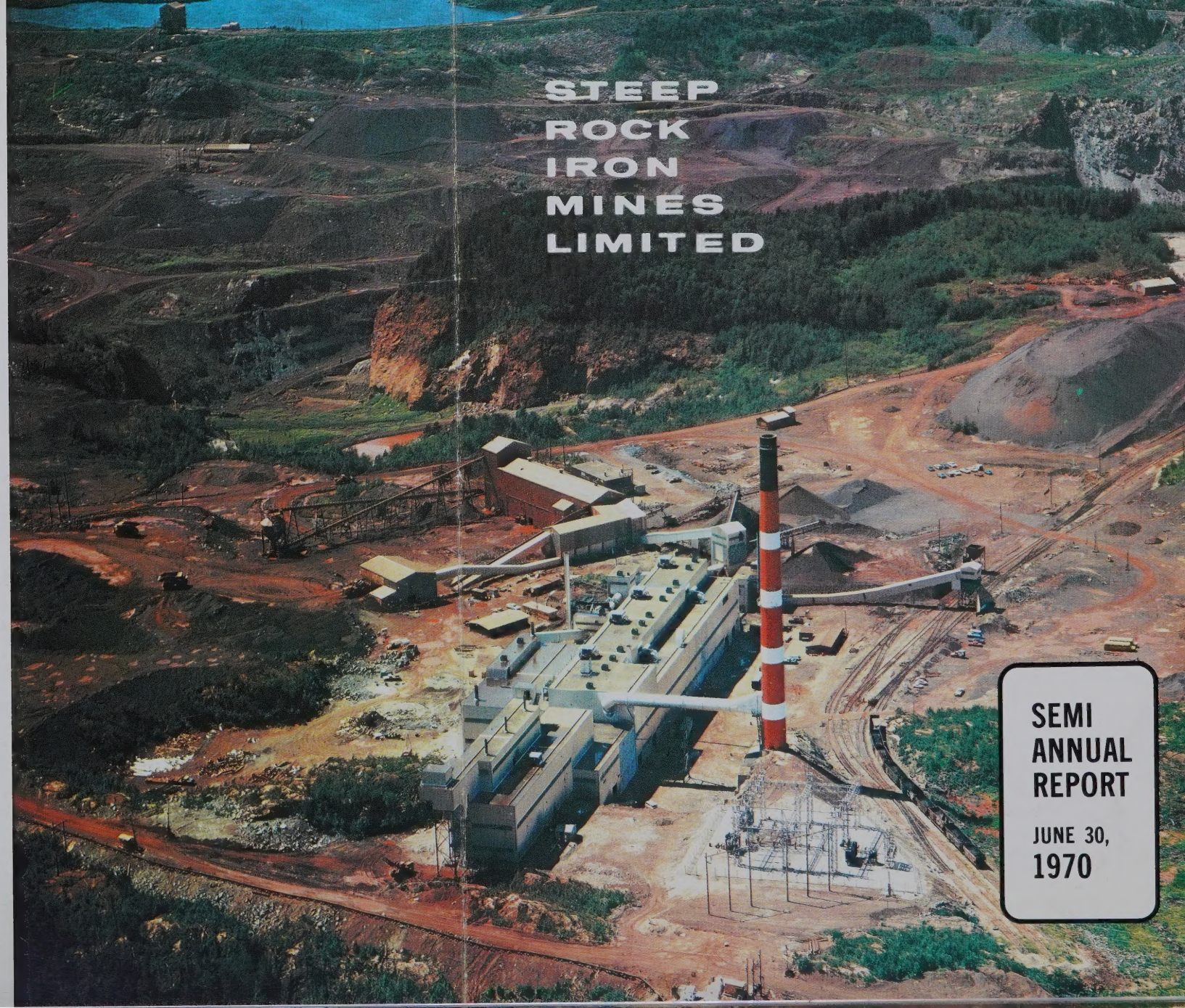
## STEEP ROCK IRON MINES LIMITED

## *ANNUAL MEETING*

The Annual General Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held at the Head Office of the Company at Atikokan, Ontario, on the 21st day of May, 1971, at the hour of 10:00 o'clock in the forenoon.




SRIM
LIMITED




AR20

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STEEP ROCK IRON MINES LIMITED

# STATEMENT OF EARNINGS

SIX MONTHS ENDED JUNE 30, 1970

(with comparative figures for 1969)

| | 1970 | 1969 (as restated*) |
|---|---|---|
| Revenue — Tons | 595,005 | 757,633 |
| Sales and other operating revenue | $7,063,918 | $8,426,123 |
| Royalty and investment income | 2,804,465 | 1,788,771 |
| | 9,868,383 | 10,214,894 |
| Earnings before income taxes and extraordinary items | 1,517,730 | 2,209,279 |
| Income taxes | 478,000 | 890,000 |
| Earnings before extraordinary items | 1,039,730 | 1,319,279 |
| Extraordinary items: | | |
| Gain on sale of marketable securities | 544,328 | |
| Income tax credit arising from carry forward of prior year's write-offs | 478,000 | |
| Net earnings for the period | $2,062,058 | $1,319,279 |
| Earnings per share before extraordinary items | $ 0.13 | $ 0.16 |
| Net earnings per share | $ 0.26 | $ 0.16 |

*The figures for the six months ended June 30, 1969 have been restated from those reported a year ago to reflect the retroactive adoption of (i) the practice of providing for deferred income taxes and (ii) the practice of accounting for ore sales in the period in which deliveries are made rather than the period in which the contract was executed.

STEEP ROCK IRON MINES LIMITED

# STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SIX MONTHS ENDED JUNE 30, 1970

(with comparative figures for 1969)

| | 1970 | 1969 |
|---|---|---|
| SOURCE OF FUNDS | | |
| Current operations before extraordinary items | $1,039,730 | $1,319,279 |
| Items not involving current funds: | | |
| Depreciation and amortization | 1,694,558 | 1,647,712 |
| Income taxes | 478,000 | 890,000 |
| Gain on sale of marketable securities | 544,328 | |
| Sale of fixed assets | 79,883 | 124,222 |
| | 3,836,499 | 3,981,213 |
| APPLICATION OF FUNDS | | |
| Development expenditures deferred | 1,494,875 | 181,810 |
| Additions to fixed assets | 924,937 | 1,036,418 |
| Payment on royalty loan | 683,460 | 455,113 |
| Research patents | 50,000 | 50,000 |
| Dividend paid (15¢ per share) | 1,209,548 | 1,209,548 |
| Other items, net | 290,234 | 114,803 |
| | 4,653,054 | 3,047,692 |
| Increase (decrease) in working capital | (816,555) | 933,521 |
| Working Capital — January 1 | 8,347,908 | 8,708,090 |
| Working Capital — June 30 | $7,531,353 | $9,641,611 |

## TO THE SHAREHOLDERS:

While shipments for the first half-year totalled 595,005 tons, due to customer quotas, total shipments for 1970 will be in the order of 1,400,000 tons. (1969 prodn = 1,403,900 tons)

Plant modifications completed in July are expected to permit a higher sustained output of pellets.

The $691,549 by which earnings before income taxes and extraordinary items were down from 1969, as adjusted, was due to lower revenue ($346,511) and higher cost of operation ($345,038).

The "unpegging" of the Canadian dollar in June had an adverse effect of $177,000 on Company income for the six months, and a continuation of current exchange rates could reduce total net earnings for 1970 by approximately $800,000. All income, except income from Canadian investments, is adversely affected.

The extraordinary item "Gain on sale of marketable securities" is the sale proceeds less the asset value as shown on the December 31, 1969 balance sheet. The sale price was $92,028 in excess of the cost of these securities when purchased in 1964.

The summer development program at the Company's Lake St. Joseph property has been postponed due to export restrictions and to industry uncertainty over Federal Government tax policy. Among other alternatives being considered for development of that property is a pipeline for delivery of concentrate to Steep Rock's pellet plant at Atikokan and/or a plant site at an upper lake port.

July 31, 1970

F. R. JONES
PRESIDENT

Spurious reasoning (!) so I omitted it.

## BOARD OF DIRECTORS

| | |
|---|---|
| GEO. E. ALLEN | *Washington, D.C.* |
| HON. W. M. BENIDICKSON, P.C. | *Ottawa, Ontario* |
| ** NEIL EDMONSTONE, F.C.I.S. | *Barrie, Ontario* |
| ** A. R. GALE | *Greenwich, Connecticut* |
| ** F. RAYMOND JONES, P.Eng. | *Atikokan, Ontario* |
| ROBERT L. KAISER | *Grosse Pte. Farms, Michigan* |
| LAURENCE J. LAMB, P.Eng. | *Atikokan, Ontario* |
| MARK T. McKEE | *Oxford, Connecticut* |
| * JOHN N. PATERSON | *Thunder Bay, Ontario* |
| * A. E. RISING, JR., D.Eng. | *New York, N.Y.* |
| CLARE E. WHITE, P.Eng. | *Victoria, British Columbia* |

* *Member of the Executive Committee*
** *Member of the Executive Committee and Audit Committee*

## OFFICERS

| | |
|---|---|
| JOHN N. PATERSON | *Chairman of the Board* |
| F. RAYMOND JONES, P.Eng. | *President & Chief Executive Officer* |
| LAURENCE J. LAMB, P.Eng. | *Vice President & General Manager* |
| JOHN A. CAMPBELL, Q.C. | *Secretary-Treasurer* |
| LOUIS ZUCCHIATTI, R.I.A. | *Controller & Assistant Secretary* |

## AUDITORS

CLARKSON, GORDON & CO. — *Thunder Bay, Ontario*

## TRANSFER AGENTS

CROWN TRUST COMPANY — *Toronto, Ontario*
and
CENTRAL NATIONAL BANK OF CLEVELAND
*Cleveland, Ohio*

## GENERAL COUNSEL

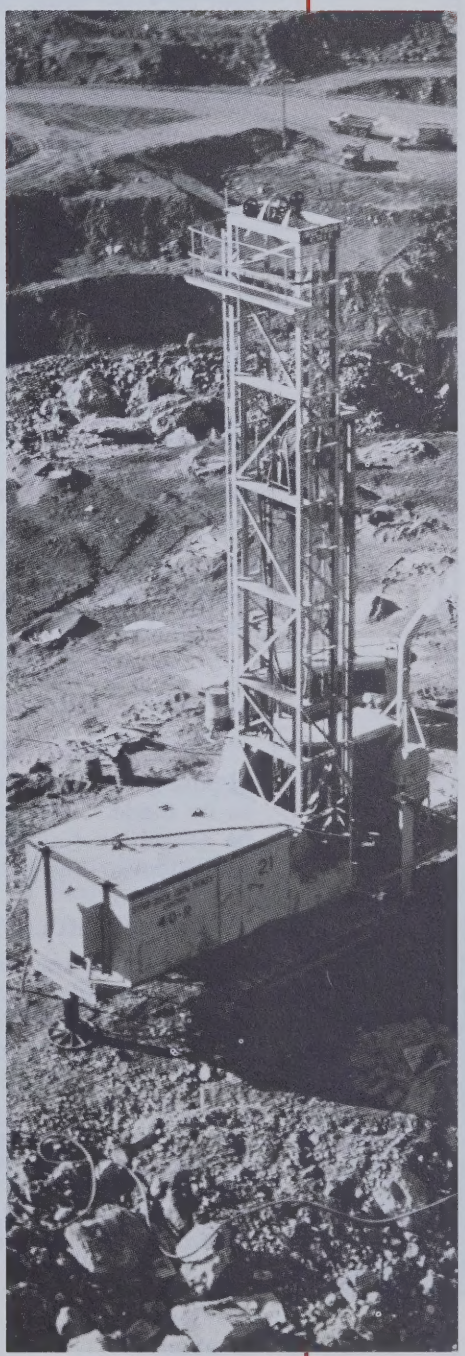
SEED, GREER, LONG, CAMPBELL & HOWARD
*Toronto, Ontario*

## CONSULTING GEOLOGIST

M. W. BARTLEY, Ph.D. — *Thunder Bay, Ontario*

## MINE AND EXECUTIVE OFFICES

*Atikokan, Ontario*



## *PRESIDENT'S LETTER TO THE SHAREHOLDERS*

Earnings for the year ended December 31, 1970 before income taxes and extraordinary items were $2,800,972 compared with $3,170,328 (as restated) for 1969. Please refer to Notes 1 (b) and (c) to Consolidated Financial Statements for changes in reporting of depletion and depreciation.

Production of 1,382,000 tons of pellets (dry basis) again exceeded the 1,350,000 ton planned plant capacity. Shipments totalled 1,500,764 tons of which pellets comprised 1,453,696 tons and red ore 47,068 tons.

Total cash generated was $7,548,223 compared with $7,138,948 as restated for 1969. A 15-cent dividend was paid in June.

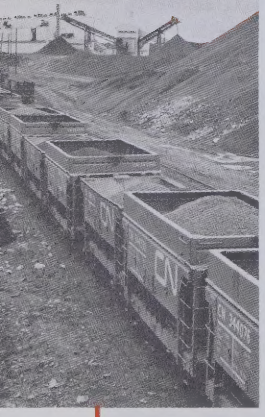
The unpegging of the Canadian dollar resulted in a $1,070,000 reduction in gross revenues for 1970. Operating revenues were reduced $880,000 and net royalties were reduced $190,000. A small offsetting factor was a reduction of $51,000 in interest on the funded debt. See also Note 3 to the Balance Sheet regarding the extraordinary exchange gain resulting from the restatement of the Company's U.S.$ assets and liabilities following the unpegging of the dollar on May 31st.

Capital expenditures were $1,545,469. The most significant item was purchase and erection of an electrostatic dust precipitator. This equipment not only improves environmental control, but has also contributed significantly to increased drying and grinding capacity and improved recoveries.

A 5.3% price increase for pellets has been announced by major producers. This increase will benefit your Company, although a substantial portion of the increased revenue will be passed on to our joint venture partner in accordance with the existing contracts.

Working capital at year-end stood at $9,701,524 up $1,230,602 from the previous year-end, as restated.

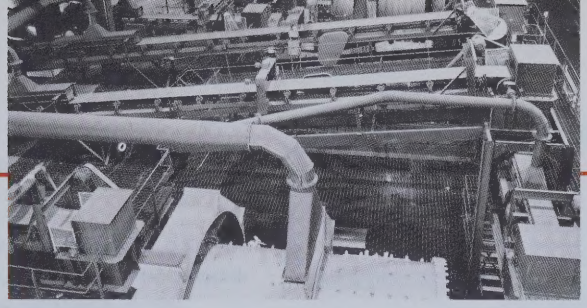
Completion of the exploratory drill program before year-end, and an intensive pit planning program enabled more confident calculations of mineable open pit ore reserves to be made. Total mineable open pit ore available to Steep Rock is now calculated to be 44-million tons, including 22-million tons in the "C" ore zone. Inferred underground ore calculated to be economically mineable under current conditions is 71-million tons.



### Accounting Rule Changes

Accounting rule changes implemented in 1969 may have affected your Company's right to pay dividends under the terms of the bond indenture signed in 1966. More specifically, non-cash items such as the 1969 year-end write-down of the deferred development account and deferred income tax liabilities became charges to earnings for the current year. As the indenture limits total dividends to consolidated net earnings since December 31, 1965, Steep Rock recognized in 1970 a possible inability to continue to pay dividends without clarifying the indenture.

Negotiations began in August, 1970 in an attempt to arrive at a clarification of the bond indenture satisfactory to the Bondholders and to the Company. An arrangement verbally agreed to be satisfactory to thirteen of the fourteen bondholders, and



acceptable to the Company, was recently worked out. This proposal called for full retirement of the bonds in 1981 instead of 1987 as in the original indenture. The working capital minimum was to be increased, but the Company would have been able to continue to pay dividends as long as current operating projections were met. As one bondholder has refused its agreement to the proposal there still may be a technical impediment to payment of dividends. Efforts toward settlement continue.

### Lake St. Joseph

No on-site work was done during the year. Several steel companies have expressed continuing interest in production from this property. Although no firm commitments have been obtained, the rapid growth of the world-wide use of direct reduction in steel-making is encouraging. Lake St. Joseph is one of the few major-scale properties from which a concentrate containing under one-half percent silica can be produced.

### Management and Board Changes

On the retirement of Neil Edmonstone from the Presidency on May 1, 1970, F. Raymond Jones was elected President and a Director. Laurence J. Lamb, Mine Manager, was elected Vice President and General Manager. Bruce W. Taylor became Mine Manager. John A. Campbell was elected Secretary-Treasurer on the resignation of G. B. Sullivan.

F. H. Black, a Director since 1965, resigned April 30th. It is with regret that we report his death on June 30, 1970.

On the resignation of J. Isbrandtsen, A. R. Gale was elected a Director and member of the Executive Committee. Neil Edmonstone was added to the Committee. J. D. Dale resigned as a Director and Chairman of the Executive Committee.

Frank H. Logan resigned from the Directorate at year-end.

On January 7, 1971 A. R. Gale was elected Chairman of the Executive Committee.

On January 28, 1971 Laurence J. Lamb and Clare E. White were elected to fill the two vacancies on the Board.

The President takes this opportunity to recommend to your attention the faithful work performed by your Directors, Officers, and Employees, and to thank them for their assistance and support.

### Outlook

The combination of deep pits and high stripping ratios imposes a continuing high cost on the operation. Efficiency improvements are expected to keep the gap between cost and price from further narrowing.

Ore reserves are more than adequate to meet contractual obligations.

Estimated shipments for 1971 are 1,450,000 tons of pellets. Minor tonnages only of red ore are expected to be sold. Even assuming a continuation of the adverse foreign exchange ratio for the full year, earnings for 1971 are currently expected to approximate those for 1970.

April 7, 1971

F. R. JONES
PRESIDENT

STEEP ROCK IRON MINES LIMITED
(INCORPORATED UNDER THE LAWS OF ONTARIO)
AND ITS SUBSIDIARY COMPANIES

# CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1970

(WITH COMPARATIVE FIGURES AT DECEMBER 31, 1969)

## ASSETS

| | 1970 | 1969 |
|---|---|---|
| **CURRENT** | | |
| Cash | $ 429,634 | $ 1,347,344 |
| Short term investments at cost which approximates market value | 6,843,533 | 5,653,125 |
| Other investments (sold in 1970) | | 1,180,438 |
| Accounts receivable | 2,742,957 | 1,962,686 |
| Ore (finished and in process), at the lower of cost or net realizable value | 1,174,486 | 941,943 |
| Supplies at average cost | 1,240,081 | 1,189,832 |
| Prepaid expenses | 138,956 | 214,753 |
| Total current assets | 12,569,647 | 12,490,121 |
| **FIXED ASSETS AND HOUSING** | | |
| Mining properties (Note 4) | 4,789,499 | 4,665,801 |
| Less accumulated depletion (Note 1) | 2,049,727 | 1,792,349 |
| | 2,739,772 | 2,873,452 |
| Plant, buildings and equipment, at cost | 55,307,423 | 56,366,557 |
| Less accumulated depreciation | 25,906,607 | 25,096,476 |
| | 29,400,816 | 31,270,081 |
| Housing | | |
| Properties owned, at less than cost and less accumulated depreciation 1970 – $308,301; 1969 – $230,690 | 1,041,213 | 1,090,934 |
| Mortgages and sale agreements receivable | 427,438 | 511,246 |
| | 1,468,651 | 1,602,180 |
| | 33,609,239 | 35,745,713 |
| **OTHER ASSETS AND DEFERRED CHARGES** | | |
| Shares in and advances to other mining companies, at cost (Note 5) | 596,784 | 605,784 |
| Deferred development expenditures (unamortized portion) | 11,321,050 | 11,998,708 |
| Deferred overburden removal (stripping) costs | 8,142,258 | 7,769,363 |
| Sundry | 136,484 | 396,878 |
| | 20,196,576 | 20,770,733 |
| | $66,375,462 | $69,006,567 |




## LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1970 | 1969 |
|---|---|---|
| **CURRENT** | | |
| Accounts payable and accrued liabilities | $ 1,712,204 | $ 2,847,481 |
| Accrued interest | 141,565 | 155,469 |
| Mortgage bond principal due within one year | 1,014,354 | 1,016,249 |
| Total current liabilities | 2,868,123 | 4,019,199 |
| **DEFERRED** | | |
| Advance payments received on sale of interest in mining properties | 175,935 | 151,060 |
| **LONG TERM DEBT** (Note 6) | | |
| Mortgage bonds | 27,695,500 | 30,153,341 |
| Royalty loan | 1,296,779 | 2,637,348 |
| Mortgages payable on employee housing | 383,557 | 425,142 |
| | 29,375,836 | 33,215,831 |
| **SHAREHOLDERS' EQUITY** | | |
| Capital | | |
| Authorized | | |
| 10,000 preference shares of $100 each | | |
| 10,666,666 common shares of $1 each | | |
| Issued | | |
| 8,063,652 common shares | 8,063,652 | 8,063,652 |
| Contributed surplus | 3,674,675 | 3,674,675 |
| Retained earnings (Note 6) | 22,217,241 | 19,882,150 |
| | 33,955,568 | 31,620,477 |
| | $66,375,462 | $69,006,567 |

On behalf of the Board
N. Edmonstone, Director
F. R. Jones, Director

(See accompanying notes to consolidated financial statements)

STEEP ROCK IRON MINES LIMITED
AND ITS SUBSIDIARY COMPANIES

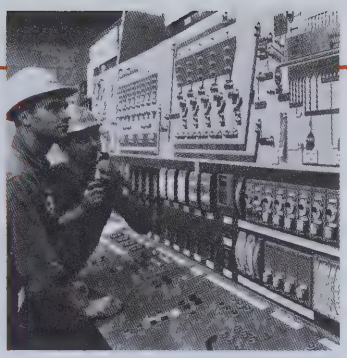
# CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1970

(WITH COMPARATIVE FIGURES FOR 1969)

| | 1970 | 1969 |
|---|---|---|
| INCOME | | |
| Gross operating revenues | $17,967,358 | $17,624,061 |
| Royalty and investment income | 5,414,881 | 4,396,790 |
| | 23,382,239 | 22,020,851 |
| COSTS AND EXPENSES | | |
| Operating costs, other than those shown below | 13,978,480 | 11,887,075 |
| Administrative and corporate | 760,173 | 826,144 |
| Interest on bonds and royalty loan | 1,888,358 | 2,066,161 |
| Depreciation (Note 1) | 2,384,422 | 2,580,551 |
| Depletion (Note 1) | 257,378 | 226,324 |
| Amortization of deferred development expenditures | 1,201,122 | 1,170,871 |
| Sundry exchange losses | 111,334 | 93,397 |
| | 20,581,267 | 18,850,523 |
| EARNINGS before income taxes and extraordinary items | 2,800,972 | 3,170,328 |
| Deferred income taxes (Note 8) | 990,000 | 1,304,000 |
| EARNINGS before extraordinary items | 1,810,972 | 1,866,328 |
| EXTRAORDINARY ITEMS | | |
| Exchange gains less exchange losses (net of related tax credits of $117,000) resulting from the unpegging of the Canadian dollar (Note 3) | 1,300,112 | |
| Gain on sale of investments (1969 – provision for loss on investments) | 544,328 | (452,300) |
| Write-off of land and plant facilities no longer required (net of related tax credits of $501,000) | (482,773) | |
| Income tax credit arising from carry forward of prior year's write-offs | 372,000 | |
| Write-off of deferred development expenditures (net of related tax credits of $20,052,000) | | (35,448,000) |
| | 1,733,667 | (35,900,300) |
| NET EARNINGS (LOSS) FOR THE YEAR | $ 3,544,639 | $(34,033,972) |
| PER SHARE | | |
| Earnings before extraordinary items | $0.22 | $0.23 |
| Net earnings (loss) for the year | $0.44 | $(4.22) |

(See accompanying notes to consolidated financial statements)



STEEP ROCK IRON MINES LIMITED
AND ITS SUBSIDIARY COMPANIES

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1970
(WITH COMPARATIVE FIGURES FOR 1969)

| | 1970 | 1969 |
|---|---|---|
| Balance at beginning of year | | |
| As previously reported | $21,622,209 | $56,377,543 |
| Provision for depletion (Note 1 (b)) | (1,792,349) | (1,566,025) |
| Adjustment of pellet plant depreciation (Note 1 (c)) | 52,290 | 653,152 |
| Less deferred income tax credit relating thereto | (27,000) | (339,000) |
| Adjustment of prior year's write-off of deferred development expenditures to incorporate above additional tax credit | 27,000 | |
| | (1,740,059) | (1,251,873) |
| As restated | 19,882,150 | 55,125,670 |
| Add net earnings (loss) for the year | 3,544,639 | (34,033,972) |
| | 23,426,789 | 21,091,698 |
| Deduct dividend of 15¢ per share | 1,209,548 | 1,209,548 |
| Balance at end of year | $22,217,241 | $19,882,150 |

(See accompanying
notes to consolidated financial statements)






STEEP ROCK IRON MINES LIMITED
AND ITS SUBSIDIARY COMPANIES

# CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 31, 1970
(WITH COMPARATIVE FIGURES FOR 1969)

| | 1970 | 1969 |
|---|---|---|
| **SOURCE OF FUNDS** | | |
| Net earnings (loss) for the year | $ 3,544,639 | $(34,033,972) |
| Add (deduct) | | |
| Depreciation | 2,384,422 | 2,580,551 |
| Depletion | 257,378 | 226,324 |
| Amortization of deferred development expenditures | 1,201,122 | 1,170,871 |
| Special write-off of deferred development expenditures (net of $18,748,000 tax credits from prior years) | | 36,752,000 |
| Write-off of land and plant facilities no longer required | 983,773 | |
| Exchange adjustment relating to long term debt | (1,322,573) | |
| Other | 202,737 | 210,680 |
| Total funds from operations | 7,251,498 | 6,906,454 |
| Sale of fixed assets | 96,260 | 290,105 |
| Reduction (increase) in mortgages and sales agreements receivable | 83,808 | (107,611) |
| Payments received on sale of interest in mining properties | 50,000 | 50,000 |
| Other | 66,657 | |
| | 7,548,223 | 7,138,948 |
| **APPLICATION OF FUNDS** | | |
| Additions to mining properties | 148,823 | 94,534 |
| Additions to fixed assets and housing | 1,545,469 | 1,517,850 |
| Deferred development expenditures | 523,464 | 611,851 |
| Net increase in deferred overburden removal expenditures | 372,895 | 1,770,074 |
| Reduction in long term debt | | |
| Mortgage bonds | 1,084,435 | 1,151,137 |
| Royalty loan | 1,391,402 | 974,050 |
| Mortgages payable | 41,585 | 37,802 |
| Dividends | 1,209,548 | 1,209,548 |
| Other | | 592 |
| | 6,317,621 | 7,367,438 |
| Increase (decrease) in working capital | 1,230,602 | (228,490) |
| Working capital at beginning of year | 8,470,922 | 8,699,412 |
| **WORKING CAPITAL** at end of year | $ 9,701,524 | $ 8,470,922 |

(See accompanying notes to consolidated financial statements)



# AUDITORS' REPORT

TO THE SHAREHOLDERS OF
STEEP ROCK IRON MINES LIMITED

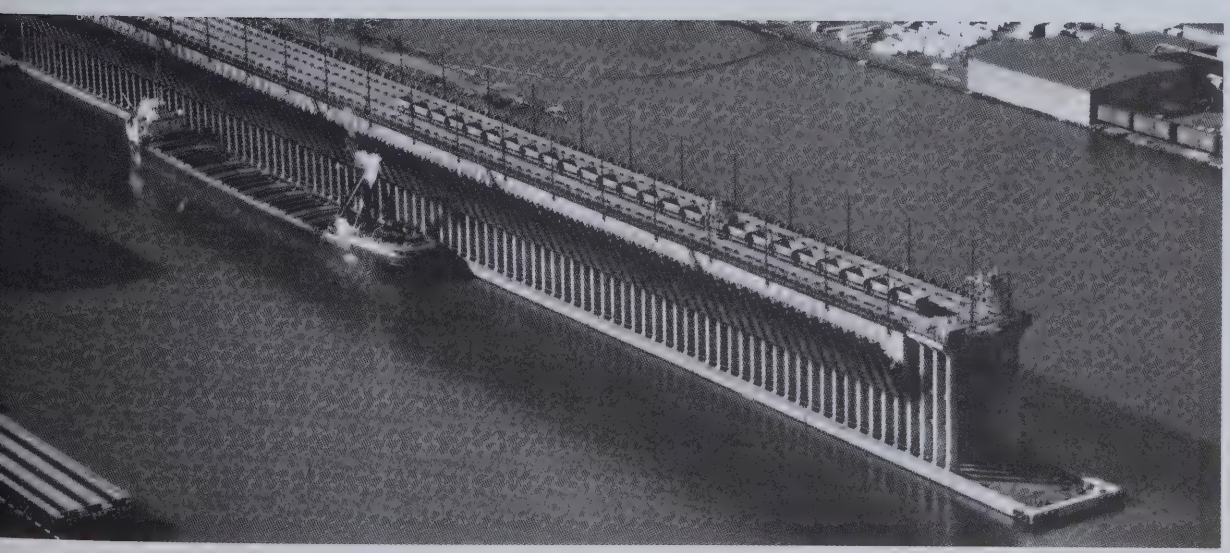
We have examined the consolidated balance sheet of Steep Rock Iron Mines Limited and its subsidiary companies as at December 31, 1970 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to such adjustments with respect to bond repayments, dividend restrictions or other amendments to the trust indenture as may result from the negotiations with bondholders referred to in Note 6, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the changes in accounting and statement presentation described in Note 1.

The comparative figures as of December 31, 1969 and for the year then ended are based upon the financial statements for that year as reported upon by Thorne, Gunn, Helliwell & Christenson (adjusted for the retroactive restatements resulting from the changes in accounting and statement presentation referred to above).

THUNDER BAY, ONTARIO.
April 5, 1971.

CLARKSON, GORDON & CO.
CHARTERED ACCOUNTANTS



STEEP ROCK IRON MINES LIMITED

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**DECEMBER 31, 1970**

1. CHANGES IN ACCOUNTING AND STATEMENT PRESENTATION

(a) In prior years the accounts of the Company's wholly owned subsidiaries, Steerola Explorations Limited, Sanjo Iron Mines Limited, and Don Park Homesites Limited, were not consolidated but were reflected as an investment on the balance sheet. In 1970, the financial statements have been drawn up on a consolidated basis to include the accounts of these subsidiaries, and the 1969 comparative figures have been restated on the same basis. This change had no effect on income or retained earnings as the subsidiaries have had no profits or losses to date. The 1969 comparative figures also reflect certain other minor reclassifications to conform with the presentation followed in 1970.

(b) In 1970 the Company retroactively adopted the practice of making provision for depletion of mining properties in its annual financial statements. In prior years this provision was recorded only in statements filed with the U.S. Securities and Exchange Commission. As a result of this change, and its retroactive application, (i) 1970 earnings reflect a depletion provision of $257,378, (ii) the comparative figures for 1969 have been restated to reflect a depletion charge for that year of $226,324 and (iii) retained earnings at January 1, 1969 reflect a depletion charge of $1,566,025 applicable to 1968 and prior years.

(c) In 1969 depreciation on the pellet plant was calculated using the sinking fund method. In 1970 the basis of providing depreciation on this asset was changed to the straight line method retroactively to the commencement of pelletizing operations in September 1967. As a result of this change (i) 1970 depreciation charges are higher by $653,200 than they would have been on the previous basis (ii) the 1969 comparative figures have been restated to reflect a higher depreciation charge for that year of $600,862 (and a related reduction in the provision for income taxes of $312,000) and (iii) retained earnings at January 1, 1969 reflect a credit adjustment of $653,152 (and a related income tax charge of $339,000) applicable to the 1967 and 1968 fiscal years.

The net effect of the changes referred to under (b) and (c) has been to reduce earnings by the following amounts:

| | For 1970 | | For 1969 | |
|---|---|---|---|---|
| | Amount | Per share | Amount | Per share |
| Reduction in earnings after income tax but before extraordinary items | $561,778 | $0.07 | $515,186 | $0.06 |
| Reduction in net earnings for the year | 910,578 | 0.11 | 488,186 | 0.06 |

2. ACCOUNTING FOR JOINT VENTURE OPERATIONS

Under agreements entered into in 1965 (covering a period of 22 years) certain of the Company's open pit ore reserves at Steep Rock Lake were leased to a joint venture partner, and the Company was appointed operator to mine and process the ore on the partner's behalf. As in prior years, the 1970 financial statements have been drawn up to reflect in "gross operating revenues" the value of the ore produced (less the profit allocation to the joint partner), and in "costs and expenses" the full costs of mining and processing the ore.

3. BASIS OF TRANSLATING U.S. DOLLAR ASSETS AND LIABILITIES

U.S. dollar current assets and current liabilities (including long term debt maturing within one year) have been translated to Canadian dollars on the basis of the year-end exchange rate of U.S. $1 = Can. $1.01. Long term debt (mortgage bonds and royalty loan), previously translated on the basis of exchange rates prevailing on the dates the proceeds were received (the major portion being at the former pegged rate of U.S. $1 = Can. $1.075), have this year, following the unpegging of the Canadian dollar on May 31, 1970, been translated on the basis of U.S. $1 = Can. $1.025. The 1970 statement of consolidated earnings reflects an extraordinary net exchange gain (including tax effect) of $1,300,112 resulting from such unpegging.

4. MINING PROPERTIES

This asset is made up as follows:

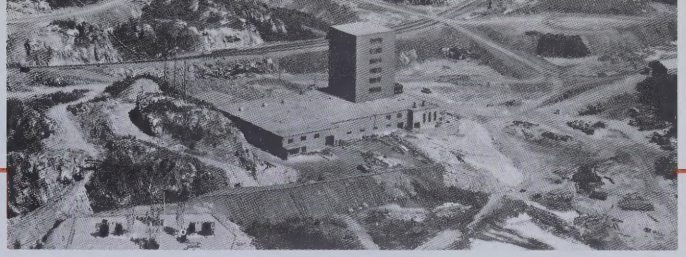
| | | |
|---|---|---|
| Properties at Steep Rock Lake (purchase cost of $2,459,456 plus a valuation adjustment made in 1943 of $1,926,937) | | $4,386,393 |
| Properties at Lake St. Joseph (purchase cost of $276,711 plus deferred exploration and development expenditures of $250,460) | $527,171 | |
| Less payment received for interest acquired by joint venture partner in certain of such properties to December 31, 1970 (see below). | 124,065 | 403,106 |
| | | $4,789,499 |

Under the joint venture arrangements referred to in Note 2, the joint venture partner is entitled to acquire an increasing proportion of certain of the Company's Lake St. Joseph claims, the rate of acquisition being related to the volume of ore shipped under the main contract.

Further development of the properties at Lake St. Joseph is dependent upon satisfactory arrangements for future production and sale being made with one or more steel companies.

5. SHARES IN, AND ADVANCES TO, OTHER MINING COMPANIES

The amount of $596,784 shown under this balance sheet classification represents the cost of the Company's share interest in, and advances to, Champlain Mining Corporation and International Iron Ores Limited. Through these investments the Company has an indirect interest of approximately 16% in Ungava Iron Ores Company, a company formed to explore and develop certain iron ore deposits on the west side of Ungava Bay. Feasibility studies regarding the future development of this project are con-



tinuing; the carrying value of the investments represents costs and advances to date, and is not intended to reflect present or future values.

6. LONG TERM DEBT AND RELATED DIVIDEND RESTRICTIONS

Long term debt at December 31, 1970 consists of the following:

| | |
|---|---|
| (a) 6% First mortgage sinking fund bonds, series A – due December 1, 1987 – U.S. $27,020,000 (excluding 1971 principal instalment of U.S. $1,004,000 included in current liabilities) | $27,695,500 |
| (b) Royalty loan – principal of U.S. $1,265,151, with interest at 3¾%, payable only by application of a portion of the royalties received from the lessee of the "C" ore zone | 1,296,779 |
| (c) Mortgages payable on employee housing | 383,557 |
| Total | $29,375,836 |

The trust indenture relating to the first mortgage sinking fund bonds provides for the redemption of the bonds in increasing annual instalments of principal. Instalments due during the next five years are 1971 U.S. $1,004,000; 1972 U.S. $1,064,000; $1973 U.S. $1,128,000; 1974 U.S. $1,195,000; 1975 U.S. $1,267,000, increasing annually thereafter and ending with a final principal instalment of U.S. $2,551,000 on December 1, 1987. Additional principal prepayments are called for (calculated at the rate of U.S. $1.41 per ton) to the extent that shipments of pellets to the joint venture partner in any twelve month period ending September 30 exceed 1,100,000 tons.

Under the terms of the indenture the Company may not effect any reduction of, or redeem any of its capital stock nor declare any dividends on any shares of its capital stock where (a) consolidated working capital (as defined) is less than, or would thereby be reduced below, U.S. $5,000,000 or (b) the cumulative amounts applied to capital stock reduction or dividend declaration subsequent to December 31, 1965 exceed consolidated net income (as defined) since that date.

The Company's interim report to Shareholders for the nine months ended September 30, 1970 referred to a problem that had arisen under the indenture with respect to the payment of dividends. The problem relates to the adoption by the Company in 1969 of certain accounting rule changes which had the effect of charging earnings for that year with deferred income taxes, and with an extraordinary write-off of deferred development expenditures in the amount (net of tax) of $35.4 millions. The Company has been negotiating with the bondholders for an amendment to the trust indenture to clarify the Company's right to make dividend payments in future and to overcome a possible default arising from the payment of a dividend of $1,209,548 in 1970. While these negotiations are still continuing as of the date of this report (April 5, 1971), the preliminary indications are that they may result in certain changes in the terms of the restrictive covenants relating to dividends, as well as a possible acceleration in the rate of annual repayments on the bonds.

7. DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation is provided at rates designed to provide fully for the cost (less salvage value) of the related assets over their estimated useful lives. The pellet plant, which constitutes the Company's major fixed asset, is being depreciated on the straight line basis over the term of the joint venture agreement referred to in Note 2.

Depletion of mining properties, and amortization of deferred development expenditures, are provided on the basis of tons of ore mined or shipped in relation to the estimated assured or reasonably assured ore reserves of presently developed mines.

Deferred overburden removal (stripping) costs are charged to operations on the basis of tons of ore mined.

8. INCOME TAXES

The Company follows the tax allocation method of accounting for income taxes. There is no current liability for income taxes for 1970 as taxes of $990,000 otherwise payable on 1970 operating income are offset by (a) tax credits relating to extraordinary items and (b) tax credits arising from the carry forward of prior years' write-offs not previously claimed for tax purposes. At December 31, 1970 the amount of prior years' write-offs remaining for carry forward against future years' income is estimated at approximately $6,300,000.

9. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The unfunded past service liability of the Company and its subsidiaries is estimated at $1,300,000 at December 31, 1970 as compared with $990,000 at December 31, 1969. The increase from 1969 reflects a higher scale of employee retirement benefits which became effective during the year. The present liability will be paid, and charged to income, over periods ranging up to 19 years.

(b) Under an agreement dated March 15, 1949 relating to the diversion of the Seine River, the Company is committed to make payments to the Ontario Hydro-Electric Power Commission of $86,102 annually until November 1, 1989.

(c) Minimum annual rentals under equipment leases presently in effect amount to $451,484 in each of the years 1971 to 1973 and to $370,794 in each of the years 1974 to 1978.

(d) The contingent liability with respect to guarantees of mortgages on employees' housing is estimated at approximately $175,000. The Company is also committed under certain outstanding sales agreements to repurchase houses in the event of employee termination, the maximum commitment at December 31, 1970 being estimated at approximately $280,000.

(e) A claim has been filed against the Company in the amount of $363,000 with respect to the construction of the pellet plant. Counsel is of the opinion that this action is unlikely to result in any material liability to the Company.

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

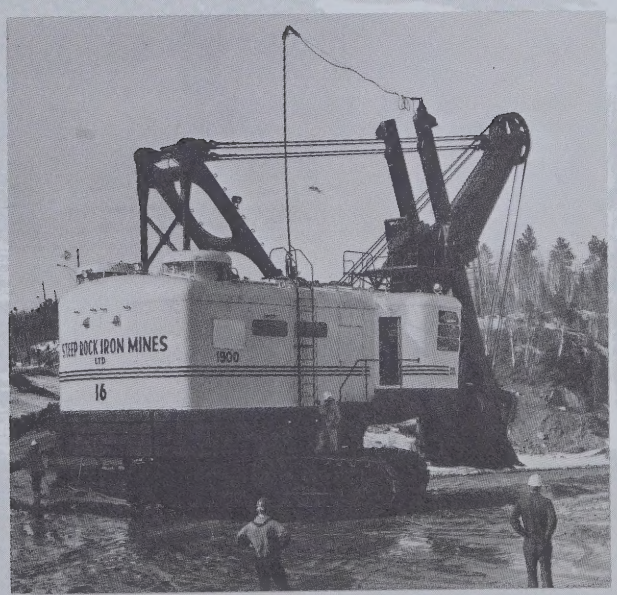
The aggregate remuneration of directors and senior officers amounted to $207,447 in 1970 ($176,344 in 1969).

# 10 YEARS IN REVIEW

| | 1970 | 1969* | 1968 | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (Thousands of Dollars) | | | | | |
| Income | | | | | | | | | | |
| ● Gross operating revenue | 17,967 | 17,624 | 15,100 | 10,202 | 10,283 | 10,325 | 10,519 | 8,520 | 7,733 | 9,684 |
| Royalty and other income | 5,415 | 4,397 | 4,712 | 4,202 | 4,053 | 4,491 | 3,883 | 3,798 | 3,995 | 2,144 |
| | 23,382 | 22,021 | 19,812 | 14,404 | 14,336 | 14,816 | 14,402 | 12,318 | 11,728 | 11,828 |
| Operating expense | 14,453 | 12,409 | 9,507 | 6,013 | 6,901 | 8,390 | 6,711 | 5,532 | 6,069 | 5,870 |
| | 8,929 | 9,612 | 10,305 | 8,391 | 7,435 | 6,426 | 7,691 | 6,786 | 5,659 | 5,958 |
| Interest, etc. | 1,888 | 2,066 | 2,168 | 926 | 448 | 511 | 662 | 784 | 600 | 124 |
| ● Profit before write-offs | 7,041 | 7,546 | 8,137 | 7,465 | 6,987 | 5,915 | 7,029 | 6,002 | 5,059 | 5,834 |
| Write-offs | 4,096 | 4,231 | 2,685 | 3,012 | 2,461 | 2,068 | 1,955 | 1,468 | 1,234 | 1,431 |
| | 2,945 | 3,315 | 5,452 | 4,453 | 4,526 | 3,847 | 5,074 | 4,534 | 3,825 | 4,403 |
| Outside exploration | 33 | 52 | 47 | 187 | 219 | 173 | 128 | 197 | 195 | 361 |
| Other expenses | 111 | 93 | 97 | 88 | 241 | 85 | 184 | 168 | 225 | 48 |
| ● Earnings before income taxes and extraordinary items | 2,801 | 3,170 | 5,308 | 4,178 | 4,066 | 3,589 | 4,762 | 4,169 | 3,405 | 3,994 |
| Deferred income taxes | 990 | 1,304 | 2,148 | 1,752 | 1,700 | 1,407 | 1,142 | 383 | 119 | 880 |
| | 1,811 | 1,866 | 3,160 | 2,426 | 2,366 | 2,182 | 3,620 | 3,786 | 3,286 | 3,114 |
| ● Extraordinary items: | | | | | | | | | | |
| Exchange credits less exchange losses (net of related tax credits of $117,000) resulting from the unpegging of the Canadian dollar | 1,300 | — | — | — | — | — | — | — | — | — |
| Gain on sale of investments (1969 – provision for loss on investments) | 545 | (452) | — | — | — | — | — | — | — | — |
| Write-off of land and plant facilities no longer required (net of related tax credits of $501,000) | (483) | — | — | — | — | — | — | — | — | — |
| Income tax credit arising from carry forward of prior year's write-offs | 372 | — | — | — | — | — | — | — | — | — |
| Write-off of deferred development expenditures (net of related tax credits of $20,052,000) | — | (35,448) | — | — | — | — | — | — | — | — |
| | 1,734 | (35,900) | — | — | — | — | — | — | — | — |
| ● Net Earnings or (Loss) | 3,545 | (34,034) | 3,160 | 2,426 | 2,366 | 2,182 | 3,620 | 3,786 | 3,286 | 3,114 |
| ● Earnings per share before extraordinary items | 0.22 | 0.23 | 0.39 | 0.30 | 0.29 | 0.27 | 0.45 | 0.47 | 0.41 | 0.39 |
| ● Dividends per share | 0.15 | 0.15 | 0.30 | 0.30 | 0.30 | 0.30 | 0.25 | 0.20 | 0.20 | — |
| ● Iron Ore and Pellets – Tons (000) | | | | | | | | | | |
| Sales and shipments | 1,501 | 1,563 | 1,440 | 1,165 | 1,236 | 1,264 | 1,241 | 1,033 | 963 | 1,214 |
| Royalty ore | 3,000 | 2,225 | 2,500 | 2,326 | 2,083 | 2,446 | 2,001 | 2,003 | 2,003 | 1,009 |
| Total tons | 4,501 | 3,788 | 3,940 | 3,491 | 3,319 | 3,710 | 3,242 | 3,036 | 2,966 | 2,223 |

● HIGHLIGHTS

* 1969 and prior years' results have been restated to give effect to retroactive changes in depletion, depreciation and deferred income taxes




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